

**MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (08-18)**

Subject

Initiative petition from Jeff Ordower regarding a proposed amendment to Chapters 208 and 143 of the Missouri Revised Statutes. (Received February 7, 2008)

Date

February 27, 2008

Description

This proposal would create "The Cover all Kids Act" in the Missouri Revised Statutes.

The proposal is to be voted on in November, 2008.

Public comments and other input

The State Auditor's Office requested input from the **Attorney General's Office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education**, the **Department of Health and Senior Services**, the **Department of Insurance**, **Financial Institutions and Professional Registration**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Department of Social Services**, the **Governor's Office/Office of Administration**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Office of State Courts Administrator**, the **Department of Transportation**, the **Missouri Senate**, the **Secretary of State's Office**, the **Office of the State Public Defender**, the **State Treasurer's Office**, **Cole County**, **Jackson County**, **Jasper County** **St. Charles County**, **St. Louis County**, the **City of Kansas City**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, the **City of West Plains**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, **Linn State Technical College**, **Metropolitan Community College**, the **University of Missouri**, **St. Louis Community College**.

Assumptions

Officials from the **Attorney General's Office** assume that the implementation of this proposal will create no fiscal impact for their office. However, because their office is responsible for defending such legislation in constitutionality claims, the Attorney General's Office assumes that the nature of these provisions could create a fiscal impact. As a result, their office assumes costs are unknown, but under \$100,000.

The **Department of Agriculture** indicated no impact on their department.

Officials from the **Department of Economic Development** assumes no fiscal or administrative impact from this proposal.

Officials from the **Department of Higher Education** indicated, if passed, this initiative would have no foreseeable direct fiscal impact on their department.

The **Department of Health and Senior Services** indicated this initiative petition is a no impact note for their department.

The **Department of Insurance, Financial Institutions and Professional Registration** indicated this proposal will have no cost to the department.

The **Department of Mental Health** stated that they relied on the eligibility estimates developed by the Department of Social Services-Family Support Division. The restoration of MO HealthNet for Kids/State Children's Health Insurance Program (SCHIP) to January 1, 2005 eligibility is as follows:

Section	Number of Eligible Children
Section 4 – Jan 1 standards	2,694
Section 4 – premium kids	16,348
Section 208.640.2	552
Section 208.640.2(2)	6,264
Section 208.640.2(3)	14,064
Section 6	60,162

The department estimates that the total number of eligible children that could access mental health services is 100,084. The annual cost per child for mental health services is \$51.71 for a total cost of \$5,175,344 (\$1,914,877 GR and \$3,260,466 FED).

The **Department of Corrections** indicated no impact on their agency.

The **Department of Labor and Industrial Relations** indicated this initiative petition has no fiscal impact on their department.

The **Department of Revenue** indicated the proposal will have an impact on their department.

Section 143.431:

Changes to eliminate the single factor method of apportionment as an option for corporations and S corporations, when apportioning their income; individual income tax forms and instruction changes would be required; corporate income tax forms and instruction changes would be required; MINITS (Missouri Individual Income Tax System) system changes would be required; COINS (Corporation Income Tax System) and CAFÉ (Corporate and Franchise Entry System) system changes would be required.

Section 143.434:

Establishes language to allow “unitary” or combined filing for corporations; corporate income tax forms and instruction changes would be required.

Personal Tax would require:

(This is under the assumption that the changes impacting individual income tax filers, that have holdings in S corporations, are to also be tracked and included in the funding.)

1 Temporary Tax Employee for key-entry of the additional returns (FY 09: \$6,695, FY 10: \$8,275, FY 11: \$8,523)

1 Tax Processing Technician I for every additional 19,000 returns to be verified (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

1 Tax Processing Technician I for every additional 2,400 pieces of correspondence generated (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

Corporate Tax would require:

1 Tax Processing Technician I for every additional 5,200 returns to be verified and 2,080 pieces of correspondence generated (FY 09: \$36,726, FY 10: \$38,724, FY 11: \$39,886)

Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD DOR estimates that this legislation could be implemented utilizing 2 existing Computer Information Technicians (CIT) III for 1 month for modifications to COINS and CAFÉ.

The department indicated that clarification is needed in section 143.434.9 to determine the revenue that is to be deposited into the cover all kids fund. It is unclear if this would be all revenue over and above present corporate income tax revenue that is collected as a result of combined reporting and the other provisions of section 143.434, and the changes to section 143.431.3(1), or all corporate income tax revenue collected.

Further, the department stated if the intent is to put the increased corporate tax revenue into the cover all kids fund, not all of the corporate income collected, a mechanism will need to be developed to determine how much new income is collected as a result of combined reporting and the other provisions in section 143.434. In order to determine the additional income collected, the taxpayer will have to make the computation both ways and notify the department how much “additional” tax was due as a result of this proposal. Without the taxpayer computing the tax using both computations, the department will not have a mechanism to determine the additional income collected.

Overall, the department estimates costs to GR of \$116,874 for FY 2009, \$124,446 for FY 2010, and \$128,181 for FY 2011.

Due to a lack of an economist and data, the department stated they cannot provide the revenue impact for this proposal.

The **Department of Public Safety** indicated they are unable to determine the fiscal impact for this petition and deferred to the Missouri Consolidated Health Care Plan.

The **Department of Social Services** indicated fiscal impacts on the following divisions within their department: the Family Support Division (FSD), the Missouri HealthNet Division (MHD), the Division of Legal Services (DLS), and the Information Technology Services Division (ITSD) of the Office of Administration.

Family Support Division (FSD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$202,000)	\$0	\$0
Federal:	\$0	\$0	\$0
Total:	(\$202,000)	\$0	\$0

Section 4 – MO HealthNet for Kids (MHK)

The Family Support Division (FSD) anticipates 2,694 children would be added to the MHK program due to affordability standards being returned to the January 1, 2005 standards. At the time the affordability standards changed as a result of SB 539 (2005), 11,774 children stopped receiving MHK. Since then, 5,418 were returned to the program with changes implemented to the affordability standard in the summer of 2006, and 3,662 children were estimated to be eligible due to changes in affordability with SB 577 (2007). $(11,774 - 5,418 - 3,662 = 2,694)$

The FSD anticipates 21,986 children who are currently required to pay a premium on the MHK program will no longer be required to pay a premium. FSD also anticipates 8,174 new cases to be found eligible or 16,348 children. This is based on the number of children who were cut from the MHK program as a result of SB 539.

Existing staff of the FSD would absorb the increase in applications and caseload size.

Section 208.640.1. - Income Limit from 150% to 225% Federal Poverty Level (FPL)

No fiscal impact to FSD

Section 208.640.2 – Presumptive Eligibility (PE)

The FSD would see an increase in the number of PE determinations made if the number of facilities increased. There would be an increase in applications for MHK, and the caseload sizes for MHK would increase. Currently, there are seven facilities making PE determinations. They approve an average of 82 PE applications per month. If the number of facilities increased to 100, FSD would see an increase in approvals to 1,200 per month. (Currently 7 facilities approve 82 PE applications, which is an average of 12 applications per facility. $100 \text{ facilities} \times 12 \text{ applications} = 1,200 \text{ applications approved per month}$.) Approximately 54% of PE approvals are approved for MHK. $1,200 \times 54\% = 648$. FSD believes 50% of these would have applied for benefits without the PE process, so there would be an increase of 324 new cases to the MHK program. Approximately 46% of the PE approvals are not approved for on-going MHK benefits. Therefore, 552 children receive MHK/PE benefits for one month. ($1,200 \times 46\% = 552$)

Existing staff of the FSD would absorb the increase in applications and caseload size.

Section 208.640.2(2) - Continuous Eligibility

FSD anticipates no fiscal impact as these children are already known to FSD. FSD anticipates a total of 6,264 children that are closed each month would be eligible for up to twelve-month continuous coverage, and would receive an average of six months of coverage. After a six-month phase in, we will have 37,582 additional kids receiving MHK coverage each month ($6,264 \times 6 \text{ months} = 37,582$). FSD arrived at the 6,264 in this manner: 13,069 children were closed from MHK program. 1,019 were closed because the children were over 18; 326 closed because they transferred to other assistance; and 3,908 were closed at the reinvestigation. 1,552 were added back to the program within 3 months of closing. ($13,069 - 1,019 - 326 - 3,908 + 1,552 = 6,264$)

Section 208.640.2(3) - Administrative Renewal

FSD anticipates 1,172 children monthly that are currently closed at reinvestigation to remain open due to the automated administrative review. The annual number of children is 14,064 ($1,172 \times 12 = 14,064$). FSD arrived at the 1,172 in this manner: There are approximately 3,908 children that are closed at reinvestigation. FSD anticipates 30% of these children would not close at reinvestigation. ($3,908 \times 30\% = 1,172$)

The Family Assistance Management Information System (FAMIS) estimates the cost to develop and implement the new pre-printed administrative review form in FAMIS to be \$24,000 (240 hours x \$100/hour).

Section 6 – Buy-In for Families Over 300% FPL

FSD would see an increase in the number of applications taken. FSD anticipates 60,162 people over 300% FPL would apply and participate in the MHK program and pay full premium. FSD arrived at the number in this manner: There are 1,588,050 children under age 19 in MO, 41% of them are above 300% FPL, and 14% of those are uninsured. FSD estimates 66% of them would participate. ($1,588,050 \times 41\% \times 14\% = 91,154 \times 66\% = 60,162$)

FSD is operating under the assumption that staff cost to maintain these cases will be offset by revenue generated from the premiums collected from participants.

There will be costs to implement changes to FAMIS to register the applications and store the application information. FAMIS estimates the cost to be \$178,000 to develop and implement the ability to register and store these applications (2000 hours x \$89/hour (average per hour rate) = \$178,000).

FSD assumes existing Central Office Program Development Specialists in the Policy Unit will be able to complete necessary policy and/or forms changes.

The start up costs assumed in FY 09 is subject to appropriation of funds to DSS. However, if no appropriation were received until FY 10, those one-time costs would be moved into FY 10, with inflation adjustment.

Missouri HealthNet Division (MHD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$0 - \$2,289,119)	(\$17,256,642)	(\$20,600,879)
Federal:	(\$0 - \$6,593,764)	(\$49,707,436)	(\$59,340,448)
Total:	(\$0 - \$8,882,684)	(\$66,964,078)	(\$79,941,327)

MHD assumes a fiscal impact as a result of putting this initiative petition on the ballot. The following are the assumptions and methodology used in arriving at the fiscal impact:

The department assumes new programs and changes in the MO HealthNet for Kids (MHK) could not be implemented until funds are appropriated to them. The department is also uncertain whether the state's share for the new and restored programs would be appropriated to them from GR or other funds because the department does not know what the timing would be for funds flowing into the Cover all Kids Fund, nor whether or not the revenue to that fund would be sufficient to fund the expansion.

Due to these uncertainties, the MHD costs for FY 09 are shown as a range from \$0 to 1/6th (two months, May and June) of the estimated annual cost depending on the appropriations made to the department for FY 09.

The department assumes federal State Children's Health Insurance Program (SCHIP) (Title XXI) funds are available to cover about 73% of healthcare costs. This federal grant is capped and subject to federal reauthorization.

The department further assumes that the MO HealthNet Buy-In program would not be implemented until FY 10; it is a new program that will require several months to design and implement. In addition, although premiums for families above 300% of the FPL

would be set at a level that covers the full monthly costs, the department would still need appropriation authority to start the program.

Section 4. Expansion of children's coverage to January 1, 2005 levels and expansion of coverage to uninsured children.

The FSD anticipates 2,694 children will be added to the MHK program due to affordability standards being returned to the January 1, 2005 standard. MHD cost for these children in FY10 will be \$5,145,417 (\$1,325,974 GR).

The FSD also anticipates 21,986 children who are currently required to pay a premium on the MHK program will no longer be required to pay a premium. The loss of their premiums will result in an annual cost to MHD in FY10 of \$14,113,371 (\$3,637,016 GR).

FSD anticipates that 16,348 new children will enter the program and none of them will pay a premium. MHD cost in FY10 will be \$31,223,890 (\$8,046,396 GR).

Section 208.640.1 Income Limit from 150% to 225% FPL

This section raises the income limit for parents and guardians of uninsured children from 150% to 225% FPL. There is no impact from this provision to MHD because it is included in the impact reflected in Section 4.

Section 208.640.2 Presumptive Eligibility

The FSD projects that due to the additional facilities that would determine presumptive eligibility 324 children will be approved for the presumptive eligibility period as well as for on-going coverage. About 107 of these children will pay premiums. FSD projects 552 children will be approved for the presumptive eligibility period (1 month) only and will not be approved for on-going services. None of these children will pay premiums. MHD costs are for annual coverage for the 324 children and 1 month of coverage for the 552 children. FY10 total cost is \$567,815 (\$146,326 GR).

Section 208.640.2(2) Continuous Eligibility

FSD projects 6,264 children will receive 6 months of additional coverage through this provision. About 2,060 will pay premiums. MHD cost for FY10 is \$4,645,186 (\$1,197,064 GR).

Section 208.640.2(3) Administrative Renewal

FSD projects 1,172 children each month (14,064 annually) who are currently closed at reinvestigation will remain open due to the automated renewal. About 389 will pay premiums and 783 will not. These 1,172 children will be phased in over 12 months. MHD cost in FY10 is \$11,268,399 (\$2,903,866 GR).

Section 208.640.2(4) Premium Grace Period

The provisions of the grace period are only slightly different from the current grace period. It is not anticipated that the caseload would change or that premiums and costs would be affected. Therefore, there will be no impact to the MHD.

Section 6 Buy-in for Families over 300% FPL

FSD projects a total of 60,162 people over 300% FPL will apply and participate in the MHK program and pay full premium. They will be phased in over a 12 month period. MHD assumes the full premium will cover the full cost of care therefore there will be no fiscal impact to MHD from this provision.

Division of Legal Services (DLS)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$0 - \$6,637)	(\$31,897)	(\$32,854)
Federal:	(\$0 - \$7,190)	(\$34,555)	(\$35,591)
Total:	(\$0 - \$13,827)	(\$66,452)	(\$68,445)

The Division of Legal Services (DLS) anticipates fiscal impact if the proposal is approved by voters. The bases of the estimate follow:

As pointed out earlier, the department assumes new programs and changes in the MHK could not be implemented until funds are appropriated to the department. The department is also uncertain whether the state's share for the new and restored programs would be appropriated to them from GR or other funds because the department does not know what the timing would be for funds flowing into the Cover all Kids Fund, nor whether or not the revenue to that fund would be sufficient to fund the expansion.

Due to these uncertainties, the DLS costs for FY 09 are shown as a range from \$0 to 1/6th (two months, May and June) of the estimated annual cost depending on the appropriations made to the department for FY 09.

With reference to section 4, FSD anticipates 2,694 would be added to the MHK program due to affordability standards being returned to the January 1, 2005, standards. DLS estimates that 10% of this amount requests hearings on an annual basis. Thus, 269 people would request hearings annually. FSD also anticipates 8,174 new cases to be found eligible. Using the 10% standard, 817 cases would request hearings annually. This would result in 1,086 total hearings under this section. With a hearing officer handling an average of 900 hearings a year, the fiscal impact of this section would be 1 hearing officer (FY 10: \$66,452 for PS and E&E; \$31,897 GR, \$34,555 FED).

In section 208.640.2, FSD believes there would be an increase of 324 new cases to the MHK program under this section. Using the 10% standard, this would only be an increase of 32 cases. Existing hearing staff would absorb the increase in applications and caseload size.

The provision that allows all Missouri children in families with incomes above 300% FPL to enroll in a Missouri HealthNet program by paying a full premium will have no fiscal impact to DLS. The division assumes that there would be no hearing rights given for the application and non-payment of premiums of this group.

Information Technology Services Division (ITSD)

	FY 09	FY 10	FY 11
GR (Cover All Kids Fund):	(\$72,622)	\$0	\$0
Other State Funds:	(4,800)	\$0	\$0
Federal:	(\$28,238)	\$0	\$0
Total:	(\$105,660)	\$0	\$0

ITSD fiscal impact is a one-time cost for system changes in FY 09. However, if no appropriation were received until FY 10, those costs would be moved into FY 10. The cost is for contract labor to carry out programming tasks to accommodate changes in the FAMIS, Income Maintenance (IM), and MHD programs. A total of 620 contract labor hours at a cost of \$93 per hour will be required for FAMIS programming. For IM and MHD programming, 640 contract labor hours at a cost of \$75 per hour will be required.

A summary of the fiscal impact estimated by the department is as follows:

FY 09	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	(\$202,000)	\$0	\$0	\$0
MHD	(\$0-\$2,289,119)	\$0	(\$0-\$6,593,764)	(\$0-\$8,882,684)
DLS	(\$0-\$6,637)	\$0	(\$0-\$7,190)	(\$0-\$13,827)
ITSD	(\$72,622)	(\$4,800)	(\$28,238)	(\$105,660)
TOTALS	(\$274,622-\$2,570,378)	(\$4,800)	(\$28,238-\$6,629,192)	(\$105,660-\$9,002,171)

FY 10	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	\$0	\$0	\$0	\$0
MHD	(\$17,256,642)	\$0	(\$49,707,436)	(\$66,964,078)
DLS	(\$31,897)	\$0	(\$34,555)	(\$66,452)
ITSD	\$0	\$0	\$0	\$0
TOTALS	(\$17,288,539)	\$0	(\$49,741,991)	(\$67,030,530)

FY 11	GR (Cover all Kids Fund)	Other State Funds	Federal	TOTAL
FSD	\$0	\$0	\$0	\$0
MHD	(\$20,600,879)	\$0	(\$59,340,448)	(\$79,941,327)
DLS	(\$32,854)	\$0	(\$35,591)	(\$68,445)
ITSD	\$0	\$0	\$0	\$0
TOTALS	(\$20,633,733)	\$0	(\$59,376,039)	(\$80,009,772)

Officials from the **Governor's Office/Office of Administration** indicated if passed by the voters, this change to the statutes should not result in additional costs or savings to their departments.

Budget and Planning (B&P) defers to the Department of Social Services for the impact of the changes to the children's health insurance program.

B&P defers to the Department of Revenue for the impact of the changes to the corporate income tax. B&P notes that similar provisions were proposed in fiscal year 2004 and estimates at that time were for additional general revenues of \$77.2M related to disallowing the single factor apportionment, \$15M to require combined reporting, and \$31M related to disallowing non-Missouri source income.

The **Department of Conservation** indicated that no fiscal impact is expected to their agency as a result of this proposal.

Officials from the **Office of the State Courts Administrator** indicated this proposed initiative petition should not have a fiscal impact on the judiciary.

The **Missouri Senate** indicated there appears to be no fiscal impact as it relates to their agency.

Officials from the **Secretary of State's Office** indicated their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with \$1.6 million historically appropriated in even numbered fiscal years and \$100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost \$1.2 million to publish (an average of \$193,000 per issue). Therefore, the Secretary of State's office assumes, for the

purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements.

Officials from the **Office of the State Public Defender** indicated this proposal will have no significant impact on their office.

The **State Treasurer's Office** indicated the proposal will have no fiscal impact on their office.

Officials from **Jasper County** indicated that if this proposal were to become law the effect would be negligible on the government of Jasper County. Currently their county Health Dept. is used by children mainly for immunizations and flu vaccinations. They are reimbursed by Medicaid for administering immunizations (vaccine is currently provided by the state) and the cost of providing flu shots (they have to purchase vaccines). If health care per this proposal were expanded to include additional eligible young people and county health departments continued to be reimbursed for the costs of providing these services, then they would consider the effect on county government revenue neutral.

Officials from the **City of St. Louis** indicated the city has approximately 44,000 people uninsured. They believe it is essential to get more people covered, and that in order to keep health care system costs and emergency room costs down, St. Louis needs help preserving safety net funding. Estimates are that 10,000 children lost coverage in the City of St. Louis in 2005 and 2006. Since 2005, the cost that Saint Louis Connect Care has had to pay for outside services for the uninsured, such as hospitalization, has increased by over \$500,000.

Officials from the **City of West Plains** indicated that this measure does not appear to have any direct fiscal impact on local government.

Officials from **Linn State Technical College** indicated that there appears to be no fiscal impact for their organization as a result of this initiative petition.

Officials from **Metropolitan Community College** indicated the proposal will have no direct fiscal impact on their organization.

The State Auditor's Office did not receive a response from the **Department of Elementary and Secondary Education**, the **Department of Natural Resources**, the **Missouri House of Representatives**, the **Department of Transportation**, **Cole County**, **Jackson County**, **St. Charles County**, **St. Louis County**, the **City of Kansas City**, the **City of St. Joseph**, the **City of Springfield**, **Cape Girardeau 63 School District**, **Hannibal School District #60**, **Rockwood R-VI School District**, the **University of Missouri**, **St. Louis Community College**.

Fiscal Note Summary

It is estimated state governmental entities will receive \$123.2 million annually for the state children's health insurance program. The estimated cost to state governmental entities is \$19.6 million annually. It is estimated this proposal will have no costs or savings to local governmental entities.